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Export of Capital Equipment by the Soviet Bloc to Under-Developed Countries

Conclusions

The countries of the Soviet bloc will not be able in the near future to enter the world market for capital goods on a scale at all comparable to that of the United Kingdom, United States of America and Western Germany. However, if it were decided by Moscow to concentrate attention on one or two key under-developed countries the Soviet Bloc could probably provide goods and technical aid on a significant scale and on favourable terms. The recent Soviet offer to erect a steel plant in India may be an example of this policy.

Pre-war Situation

2. Before the war, the USSR itself exported virtually no capital goods, and, although an importer thereof, was tending to become self-sufficient in them. The States which are now Satellites although industrially undeveloped as a whole, nevertheless had a few very large undertakings such as Skoda of Pilsen, Wittkowitz of Moravska Ostrava, and Ganz and Manfred Weiss of Budapest which were of world repute.

3. In 1937 - the last favourable pre-war year - the dollar value of exports of capital goods from what are now Soviet bloc countries compared as follows with these from western countries:-

Million Dollars

| | |
|----------------|------------------------|
| U.S.S.R. | Nil |
| Czechoslovakia | 60.0 |
| Poland | 3.2 |
| Hungary | 5.3 |
| E. Germany | ... |
| U.S.A. | 758.0 |
| U.K. | 454.0 |
| Germany | 480.0 (1936 figure) |

Post War Developments

4. Although, in the immediate post-war period, producers in Central and

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Eastern Europe sought their former foreign markets, by 1949 Moscow's policy of forcing the growth of heavy industry in her Satellites tended to direct their output away from the free world towards the U.S.S.R. in the first place, and, secondly, towards the Satellites themselves and China. As for the U.S.S.R., her exports had traditionally consisted of raw materials and foodstuffs and her imports of capital equipment. It was only at the Moscow economic conference in 1952 that the U.S.S.R. for the first time publicly proclaimed her readiness to export capital equipment.

5. Soviet bloc exports since the war have found their readiest markets in those under-developed countries where not only is there genuine economic need for them but also wide-spread anti-Western feeling of one kind or another which ensures a particularly sympathetic hearing for the Bloc's offers. The biggest sales are being made in South and South-East Asia, South America and the Middle East. In Asia the Bloc has made its biggest effort in India; the U.S.S.R., Czechoslovakia, Eastern Germany, Hungary and Poland have all concluded trade agreements with her and all these agreements provide for exports of capital equipment. These four Satellites, though not the U.S.S.R. herself, have also paid considerable attention to Indonesia. The U.S.S.R., on the other hand, has exported a fairly substantial quantity of capital goods to Afghanistan and has, as a result, become that country's major trading partner; so far, Czechoslovakia is the only Satellite to penetrate this market. Bloc activities in the field of capital goods in other Asian countries are still very much in the exploratory stages. In South America the main target has been Argentina. Considerable attention has also been paid to Uruguay, and the possibilities of Brazil and Chile as markets have been investigated. No serious attempts have been made to open up trade with the more northerly Republics of South America or with those of Central America, which are all much more directly susceptible to United States influence. In the Middle East the Bloc has made its greatest efforts in Persia and Egypt. Exports of capital equipment by Czechoslovakia, Eastern Germany, Hungary and Poland are also included in the trade agreements which these countries have concluded with Turkey and Israel. Attempts to develop this kind of trade with the other Middle Eastern states have so far been spasmodic and on a small scale.

6. Outside these under-developed countries, the only markets which Soviet bloc exports of this kind have entered with any success are in Finland, Norway and Iceland. So far these exports have consisted almost entirely of Russian motor vehicles. The U.S.S.R. has been able to secure this foothold because of her dominance of the Finnish economy and her importance to Norway and Iceland as a buyer of the major part of their fish exports.

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7. It is impossible to calculate the full range and quantity of Soviet bloc exports of capital goods. The evidence available suggests that the goods actually delivered are only a small part of those listed in trade agreements. Exports made to date seem to have consisted mainly of transport equipment (e.g. rolling stock and other railway material, motor vehicles of all kinds) and agricultural machinery (notably tractors and textile machinery). Some electrical and radio equipment, machine tools, mining and oil-drilling equipment and printing machinery have also been sent.

8. In addition to individual items of capital equipment, the Bloc has also offered on occasions to send entire plants. For example Czechoslovakia offered to construct a lead-refining plant in Turkey and Eastern Germany undertook early this year to build a cotton-spinning mill there. Czechoslovakia has offered to build a cement plant in Afghanistan and is reported to have considered erecting an automobile assembly plant in Argentina. The U.S.S.R. has made similar offers to Persia; her suggestions include textile factories, power stations and oil installations. The most publicised offer of this kind yet made is a recent one by the U.S.S.R. to India that she should construct a steel works there. The U.S.S.R. did indeed start work in July of this year on the construction of oil-storage installations in Afghanistan. Otherwise, despite the publicity accorded them, there is no evidence of any positive progress having yet been made with any of these projects.

The Possible Future

9. In spite of the forced post-war growth of basic and capital goods production throughout the bloc, it is still short of capital by western standards. In the absence of satisfactory statistics on the production of capital goods themselves, this deficiency can be illustrated by statistics of steel production - their major component.

Steel Output in Relation to Population 1953

| | Steel Output of (Millions of Tons) | Population (Millions) | Steel per Head (Pounds.) |
|------------------|--|--------------------------|--------------------------------|
| U.S.S.R. | 38.0 | 212.0 | 402 |
| Czechoslovakia | 4.3 | 12.9 | 747 |
| Hungary | 2.5 | 9.6 | 390 |
| Poland | 3.6 | 26.2 | 308 |
| E. Germany | 2.9 | 18.1 | 285 |
| Other Satellites | 0.7 | 25.0 | 62 |
| China | 1.7 | 582.6 | 7 |
| U.K. | 17.9 | 50.7 | 791 |
| U.S.A. | 100.2 | 161.0 | 1403 |
| W. Germany | 15.4 | 48.3 | 707 |

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10. It will be seen that only Czechoslovakia can compare with the United Kingdom or Western Germany in the amount of steel per head of population, but she is a small country whose steel output accounts for only 7 per cent of the bloc total. Even the steel output of U.S.S.R., of 38 million tons - the second highest in the world - provides per head of population little more than half that of the United Kingdom and under one third of that of the United States of America, which she aspires to surpass as an industrial power.
11. Thus, it is hard to escape the conclusion that the countries of the Soviet bloc will not be able in the near future to enter the world market for capital goods on a scale at all comparable to that of the United Kingdom, the United States of America and Western Germany.
12. Given freedom of action, Czechoslovakia might try to do so on a scale that would be important from her own point of view; but as long as economic planning is co-ordinated among the countries of the eastern bloc, as there is every indication that it will be, Czechoslovakia's exportable surpluses of capital goods are liable to be absorbed by her partners in the Soviet bloc. Hungary, too, could export marginal quantities of some items, while some of the East German undertakings might try to re-establish themselves in their old overseas markets.
13. In the case of the U.S.S.R., political considerations might to some extent predominate over economic. It is difficult at the moment to see her exporting capital equipment consistently on a scale comparable with the United Kingdom, but as her development proceeds, the economic cost will be more easily afforded.
14. It is tentatively suggested that the European satellites - principally Czechoslovakia, East Germany, Poland and Hungary - could, between them, export yearly to all destinations, including the U.S.S.R. and other satellites, \$400 millions of capital goods. What proportion could be spared for the free world is hard to say, but it might be considerably less than half - say \$150 millions.
15. The U.S.S.R. could if she chose, export in the near future double this amount to the free world without unduly disrupting her own development programme, making a bloc total of \$450 millions yearly. Very much more than the foregoing could be exported if the Soviet output of conventional armaments were to be seriously curtailed, which does not as yet appear likely.
16. Against the above tentative figures, it should be borne in mind that, in 1953, the United States of America exported \$5,581 millions, the United Kingdom \$2,637 millions and western Germany \$1,673 millions. Thus, from the point of view of the western exporter of capital goods, the threat of Soviet bloc competition does not appear to be very great.

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17. Before dismissing the threat, however, it is important for its possible significance to be examined from the standpoint of the under-developed countries. In 1953 imports of capital goods from western Europe, the United States of America and Canada into under-developed African and Asiatic countries were as follows:-

| | <u>Million Dollars.</u> |
|-----------------------------|-------------------------|
| Belgian Congo | 110 |
| French Overseas Territories | 349 |
| Egypt | 74 |
| Iran | 30 |
| Saudi Arabia | 58 |
| Iraq | 49 |
| Rhodesia | 68 |
| India | 282 |
| Pakistan | 94 |
| Indo-China | 74 |
| Indonesia | 120 |
| Thailand | 69 |
| Burma and Ceylon | 57 |
| Turkey | 176 |
| Malaya | 86 |
| Total | <u>1,696</u> |

18. It will be seen that, in most cases, the above imports were individually small in relation to the exports from the main exporting countries. This could have important political implications, for if it were decided by Moscow to concentrate attention on one or two key importing countries, the bloc could probably provide all that these particular countries could absorb.

19. One of the reasons why the capital imports of individual under-developed countries are so small is the inability of the would-be importers to find the necessary means of payment, while nationalism has rendered them unattractive to foreign investors. Where the private enterprises of the west would be reluctant to risk their resources the State-controlled enterprises of the bloc, backed by an official policy of trouble-making, could offer attractive terms, the real cost of which would largely be borne by the Soviet bloc citizens.

Types of Goods which might be offered.

20. The types of capital goods which the Bloc could export to the free world fall into four main categories:-

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(a)/Heavy

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(a) Heavy engineering products such as rolling mills, foundry and forging equipment, presses etc... could be exported by the U.S.S.R. and Czechoslovakia, and some of the smaller items by Eastern Germany. Total exports in this category are not likely to exceed \$150-200 million yearly. At the same time Western control on strategic exports may limit Soviet Bloc exports by reducing a possible source of replacement through imports.

(b) The export of medium engineering products such as processing plant, mining machinery and cranes is not likely to be increased while the present priority accorded to agriculture prevails - surplus capacity being convertible to the production of agricultural equipment. Eastern Germany tends to specialise in processing plant and mining machinery and Hungary in electrical equipment while Czechoslovakia and the U.S.S.R. can export small quantities of all products under this heading.

(c) The export of transport equipment, particularly railway rolling stock, is likely to increase from the U.S.S.R., but Hungary and Poland could also supply significant numbers of railway wagons, and small numbers of diesel locomotives could be made available by Hungary. The export of Czech motor vehicles is likely to increase.

(d) In the field of production equipment, all countries of the bloc will be able to supply simple machine tools, but more complex and heavier types will be available from the U.S.S.R., Czechoslovakia, Eastern Germany and Hungary. Precision instruments have in the past been exported by Eastern Germany and this activity is likely to continue on an increasing scale.

Technical aid.

21. Although it seems unlikely that many technicians can be spared from the Soviet Bloc, it should be remembered that the Soviet training programme is a formidable one, and that the impact of even a few Soviet technicians on the under-developed countries might be considerable and out of proportion to the numbers involved. Furthermore, considerable aid is being made available in the form of literature and through a number of training schemes. Under these schemes, young people are sent mainly to the U.S.S.R. and Czechoslovakia for technical education and works training. The scope of this type of aid could be widened and, judging from the available information, the backward countries set great store by it.